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FM AMEMBASSY QUITO
TO RUEHC/SECSTATE WASHDC IMMEDIATE 7986
INFO RUEHBO/AMEMBASSY BOGOTA PRIORITY 7021
RUEHCV/AMEMBASSY CARACAS PRIORITY 2729
RUEHLP/AMEMBASSY LA PAZ OCT 0770
RUEHPE/AMEMBASSY LIMA PRIORITY 2053
RUEHGL/AMCONSUL GUAYAQUIL PRIORITY 2977
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY

UNCLAS QUITO 002426

SIPDIS

SENSITIVE
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TREASURY FOR MMALLOY AND MEWENS

E.O. 12958: N/A

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SUBJECT: ECUADOR ECON WEEKLY: PETROBRAS GETS ENVIRONMENTAL LICENSE;
MACHALA POWER LAWSUIT REJECTED; RICE EXPORT BAN

¶1. (U) The following is a weekly economic update for Ecuador that reports notable developments that are not reported by individual cables.

Environmental License Granted to Petrobras

¶2. (SBU) On October 23, the GOE granted an environmental license to Brazilian oil company Petrobras, which would allow it to start commercial production in Block 31 in 2009. The GOE initially granted Petrobras the environmental license in 2004, but the Ministry of Environment suspended it in August 2005 due to environmental sensitivities over the block being located next to the Yasuni National Park. The issuance of the license comes on the heels of a surprise GOE decree to increase the state share of foreign oil companies' "extraordinary oil revenue" to 99 percent and threats to Petrobras for nonpayment of extraordinary revenues over the last year.

¶3. (SBU) Petrobras had previously anticipated investing \$300 million to obtain up to 40,000 barrels of crude per day from the block, but plans are now on hold pending contract renegotiations with the GOE over the "99 percent" decree. The company argues that its new environmental plan contains proposals that will reduce the environmental impact of drilling; for example, it plans to minimize access routes to the oil field, bury pipelines underground, and place the oil processing center outside Yasuni National Park. However, several environmental organizations and indigenous groups oppose the decision, arguing that it will damage the Amazon ecosystem.

Machala Power Lawsuit Rejected

¶4. (SBU) The Tribunal of Administrative Disputes of Quito rejected U.S. electricity company Machala Power's lawsuit against Conelec and Categ October 16 for administrative reasons. Machala Power had filed a case against the National Council of Electricity (Conelec) and the Temporary Administration Corporation of Guayaquil (Categ) for nonpayment for electricity generated and sold to Categ in 2004 and 2005. The company demanded USD 77 million in payment. The court claimed it did not have jurisdiction over Categ because the company is registered in Guayaquil, and in addition does not take commercial cases. This was not an unexpected outcome. Meanwhile, Machala Power is proceeding with international arbitration because of the payment arrears, but maintains that it would prefer a negotiated settlement.

Ban on Rice Exports Leads to Increased Contraband

15. (SBU) Despite a September ban on rice exports from Ecuador intended to prevent domestic rice prices from increasing, members of the Rice Industrialists Corporation of Ecuador (Corpcom) claim Ecuadorian rice is being smuggled over the border to Colombia and Peru where prices are higher. Corpcom representatives made a statement October 23 demanding the GOE exercise greater control of the borders. According to Hugo Poveda, Corpcom's President, the prohibition was initially effective in controlling rice prices but contraband is now causing prices to rise.

JEWELL